BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268–0001

PERIODIC REPORTING
(PROPOSAL FOUR)

Docket No. RM2020-11

PETITION OF THE UNITED STATES POSTAL SERVICE FOR THE
INITIATION OF A PROCEEDING TO CONSIDER PROPOSED CHANGES
IN ANALYTICAL PRINCIPLES (PROPOSAL FOUR)
(July 13, 2020)

Pursuant to 39 C.F.R. § 3050.11, the Postal Service requests that the

Commission initiate a rulemaking proceeding to consider a proposal to change

analytical principles relating to the Postal Service's periodic reports. The proposal,

relating to a change in ICRA reporting methodology for the use of outbound Foreign

Post Settlement (FPS) system data to estimate international mail settlement expenses,

is labeled Proposal Four and is discussed in detail in the attached text.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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**Proposal Four: Use of Foreign Postal Settlement System
Outbound Data to Distribute Outbound
Settlement Expenses in the ICRA**

Proposal:

The Postal Service proposes to use additional data from the Foreign Postal Settlement (FPS) system to more accurately distribute outbound settlement expenses to international mail categories. Outbound settlement expenses are reported in General Ledger accounts 53298 (INTERNATIONAL-FOREIGN POST EXPENSE (OTHER)) and 53299 (INTERNATIONAL-FOREIGN POST EXPENSE (AIR)). The current procedure calculates two benchmark factors for benchmarking to the General Ledger accounts: 1) a factor for account 53298, and 2) a factor for account 53299. Each factor is applied to all of the products and sub-products in that account. The proposal would use additional FPS mail category item- and weight-component expense data to benchmark to eight product and sub-product categories within the settlement expense accounts; thus, replacing the single factor for each account.

Rationale:

The ICRA has traditionally calculated outbound settlement expenses as described in USPS-FY19-NP5 FY 2019 ICRA Overview/Technical Description, Part II, Chapter 5, Development of Settlement Charges. Those calculated amounts are benchmarked to the total amounts in General Ledger accounts 53298 and 53299 in the BenchMarkControls tab of USPS-FY19-NP2 (Revised 1/10/20) Reports (Unified) workbook. The benchmarking process applies one factor across-the-board equally to the calculated settlement costs for all mail categories in account 53298 and a second factor across-the-board equally to the calculated settlement costs for all mail categories

in account 53299.

Using additional FPS data for outbound settlement expenses improves ICRA reporting by providing a finer level of mail category detail that: 1) eliminates the need to use single account-level factors to benchmark the expense amounts across all mail categories, and 2) is directly related to the eight product and sub-product categories in accounts 53298 and 53299: ISAL Packets, ISAL Letters & Flats, ISAL M-Bags, PMI Parcels, LetterPost Packets (Including FCPIS, ePackets and IPA Packets), LetterPost Letters & Flats (including First-Class Mail International and IPA Letters & Flats), M-Bags (regular and IPA), and PMEI.

Impact:

The overall impact of this Proposal would be relatively modest, shifting approximately $7 million of expenses in FY 2019 from Market Dominant to Competitive. Detailed assessments of the impact on particular products are presented in two non-public attachments accompanying this proposal the impact, and both are filed under seal as part of USPS-RM2020-11-NP1. Non-public Attachment 1 is a comparison between the Summary, Market Dominant and Competitive pages filed as part of USPS-FY19-NP2 (Revised 1/10/20) and the Summary, Market Dominant and Competitive pages that would have been generated for FY2019 under this proposal. The USPS-FY19-NP2 (Revised 1/10/20) tabs are shown in brown, the proposal tabs are shown in green and the differences are shown in pink.

The pink A Pages Summary Diff tab displays the impact on total Market Dominant and total Competitive products, yielding a net impact of zero on total costs. The pages that follow display the detailed impacts on Market Dominant products and

Competitive products.

Non-public Attachment 2 is a comparison between the NSA summary results filed as part of the NSA Summary (Unified) workbook under USPS-FY19-NP2 ICM Costing (Revised 1/10/20) and the NSA summary results for FY2019 that would have been generated under this proposal. The USPS-FY19-NP2 (Revised 1/10/20) amounts are shown on the second tab, the proposal amounts are shown on the third tab and the differences are shown on the first tab. The change in Total Volume Variable and Product Specific Cost on the Summary (diffs) tab of Attachment 2 reflect the International NSA differences on the pink A Pages Summary Diff tab of Attachment 1.

<ins>Mechanics:</ins>

Numerous changes are required to extend benchmarking from the two account totals, 53298 and 53299, to the eight product and sub-product breakouts made possible by the new detail: ISAL Packets, ISAL Letters & Flats, ISAL M-Bags, PMI Parcels, LetterPost Packets (Including FCPIS, ePackets and IPA Packets), LetterPost Letters & Flats (including First-Class Mail International and IPA Letters & Flats), M-Bags (regular and IPA), and PMEI.

Even though the changes are numerous, the structure for more detailed benchmarking already existed in the ICRA. Until this point, though, the structure has not been used pending more detailed information, which is now available from FPS. For example, separate piece-component and weight-component benchmarking did not exist previously, but it has now been implemented by duplicating the existing benchmarking framework with separate piece and weight components on different

sheets. Thus, in the proposal, there are two benchmarking control sheets, BenchMarkControlsPc and BenchMarkControlsWgt, instead of one.

The following discussion focuses on the specific changes needed by each individual workbook and sheet. The changes required to expand the model to the eight products and sub-products are described first, and a final section describes the mechanics needed to separate the piece- and weight-component.

Changes Required to Expand the Model to Eight Products

File Reports (Unified).xls

Tab: Benchmarking Controls

Adjustments have been made to benchmark by eight product groups, rather than the two factors (totals for accounts 53298 and 53299) previously employed.

- Rows 28 – 35: each account now has four products / sub-products. Account 53298: ISAL_E (Packets), ISAL_PG (Letters & Flats), ISAL M-Bags, and PMI. Account 53299: LP_E (Packets for IPA, FCPIS, and ePackets), LP_PG (FCMI and IPA Letters & Flats), M-Bags and PMEI.

- Rows 39-46: each row has a product-level switch for non-ICM flows – 1 is a product in that row that participates in benchmarking for that row

- Rows 51-58: each row is a product-level switch for ICM flows

- Rows 75-82: target settlement amounts for each named row. The four rows within each product sum to the USPS-FY19-NP2 (Revised 1/10/20) Reports (Unified) for the two settlement expense accounts.

Tab: Unit Cost Staging

- ISAL Letters and Flats: revised the sources for cells G16:H21 and F21 to reference shape results for letters and flats instead of average ISAL costs. Cells K16:K21 were also adjusted, but the values were unchanged.

- ISAL Packets Group 0: revised cells F41:H41, K41, N41 to reference average ISAL Packet costs.

- IPA Letters and Flats: revised cells F81, G76:H81, K76:K81, and N81 to reference shape costs for letters and flats instead of average costs.

- IPA M-Bags: revised the calculations in cells P102:X120 to be specific to IPA M-Bags as revised on B Pages (C) (see below).

- ePackets Group 15: cells I188:J188 were adjusted to use weighted average of ePacket data from Inputs.xls PRIME Enhanced Data.

Tab: B Pages C

- IPA Packet Settlement Costs, Groups 16 and 18: cells R465, S465, R467, and S467 replaced the formulae similar to other groups (data availability for some groups has varied over time).

- IPA PG data for WWNP: revised the cell D405 range being summed

- IPA M-Bags: cells R320:R338 the terminal dues calculations were adjusted for all groups.

- IPA Letters & Flats: cells BQ368:BQ372 were adjusted for Group 15 to 19 terminal dues calculations and replaced with similar formulae to above.

- ISAL Letters & Flats: cells BQ397:BQ401 extended the terminal dues calculations and replaced with similar formulae to above.

<u>Tab: Cost Reconciliation with CRA</u>

- Adjusted Cost Reconciliation CRA sum ranges in cells C58 and C59 to include all eight products and sub-products.

File Outbound Calcs

<u>Tab**:** trnadj</u>

- Updated benchmarking factors in cells H141 and H147 due to changes in Reports (Unified), tab Unit_Cost_Staging which caused a small difference in international transportation costs.

Final Changes for Separating Piece- and Weight-Component Benchmarking

File ICM Costing (Unified)

<u>Tab: Data</u>

- Revised formulae in columns AR and AS (which have not been needed to be used to date) to instead allow reporting and transfer of separate piece and weight components of terminal dues. Also, revised column AT to eliminate the use of AR and AS because their meaning has now changed.

Tab: Data for ICRA

- Added TD_P and TD_W at the end of the pivot table that is pasted into Reports (Unified), tab Pivot5 at cell Y3.

File Reports (Unified)

Tab: BenchmarkControls

To separately benchmark piece and weight-components, the BenchmarkControls tab was copied and renamed to yield two sheets, one for the piece-component benchmarking and one for the weight-component benchmarking.

- Copied tab BenchmarkControls and renamed the copy as BenchmarkControlsWgt.

- Renamed BenchmarkControls as BenchmarkControlsPc.

Tab: Intermediate Calcs & ICRA Database

- Replaced column K (was for EPG y/n, now unused) in order to separately distinguish piece components of terminal dues (rows 155:204) and weight components of terminal dues (rows 206 to 255). Allows separate summation of piece and weight components.

Tab: BenchmarkControlsPc & BenchmarkControlsWgt

- Adjusted the formulas referencing Pivot5 ICM data to sum the new columns separately for the piece (TD_P) and weight (TD_W) benchmarking sheets.

Tab: ICRA Database

- Adjusted where benchmark factors for the TD_W are sourced, cells

  V206:AP255.